

INVESTMENT ADVISER
CAPITAL GROWTH MANAGEMENT
LIMITED PARTNERSHIP
Boston, Massachusetts 02110

CGM Mutual Fund

305th Quarterly Report
June 30, 2006

A No-Load Fund

TELEPHONE NUMBERS

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This report has been prepared for the shareholders of the Fund and is not authorized for distribution to current or prospective investors in the Fund unless it is accompanied or preceded by a prospectus.

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Investment Adviser
Capital Growth Management
Limited Partnership

To Our Shareholders:

CGM Mutual Fund returned 1.3% during the second quarter of 2006 compared to the unmanaged Standard and Poor's 500 Index which declined -1.4% and the Merrill Lynch Master Bond Index which declined -0.1% over the same period. Year-to-date, CGM Mutual Fund returned 6.5%, the unmanaged S&P 500, 2.7% and the Merrill Lynch Master Bond Index, -0.8% as of June 30, 2006.

The market, as measured by the S&P 500, enjoyed a nice three year run until May of this year when investors began to suspect that inflation was accelerating at a more rapid pace than the newly-minted Fed chairman had suggested would be acceptable. In January, just about the time outgoing Chairman Greenspan passed the baton to new Chairman Bernanke, the core inflation rate (ex food and fuel) as measured by the Consumer Price Index (CPI) began to rise. Just a few months earlier, many investors expected the Fed would pause in its regular interest rate hikes at its June 2006 meeting and possibly put an end to the seemingly relentless increases in the Federal Funds rate. But, the CPI clocked in at a rising 3.8% rate (annualized) for the three months ended May 31 and on June 29, the Fed hiked the Federal Funds rate yet another quarter percent to 5.25% in an effort to flex its inflation fighting muscles. Investors are back to pondering when and at what level the rate increases will end.

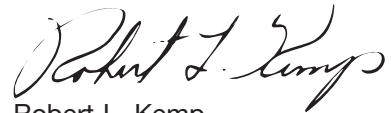
As the economy expanded over the past few years, debate centered on and around oil and whether rising energy prices would slow the economy or fuel inflation. Despite some softening in the retail sector and a dramatic drop off in housing sales, we believe inflation is the prevailing bogeyman. Corporate profits and margins are high and companies that produce capital goods for other businesses are thriving as productivity rises and the manufacturing sector booms. Despite ever higher prices at the pump, the consumer appetite for gasoline is proving insatiable and global business is robust with, for example, China announcing in May a nearly 18% increase

in industrial production over 2005 notwithstanding efforts by its government to slow its economy.

Despite the steady and continuing rise in the Federal Funds rate from 1% to 5.25% over the past two years, long term bond rates have barely risen: the 10-year U.S. Government bond yield was 4.6% at the end of June '04 versus 5.1% at the end of June '06 and the 30-year bond now yields just 5.3% regardless of a climbing nominal CPI (food and fuel included), up 4.2% over the past year.

To say the prospect of much higher interest rates is unsettling to the market right now is an understatement. However, should consumer spending continue to slow and were inflationary forces to moderate, we believe the equity market could regain its footing based upon the strong gains in corporate earnings currently underway. On June 30, our emphasis in the equity portion of the portfolio was in the heavy goods sectors of the economy and in energy.

CGM Mutual Fund was approximately 30% invested in short-term government securities at quarter end. The portfolio's equity section held important positions in the oil refining, oil service and metals and mining industries at quarter end. The three largest holdings were Schlumberger Limited, Hess Corporation and Petróleo Brasileiro S.A. ADR.



Robert L. Kemp
President

July 1, 2006

CGM MUTUAL FUND

INVESTMENT PERFORMANCE

(unaudited)

Total Return for Periods Ended June 30, 2006

	The Fund's Cumulative Total Return	The Fund's Average Annual Total Return
10 Years	+102.7%	+7.3%
5 Years	+54.6	+9.1
1 Year	+13.6	+13.6
3 Months	+1.3	—

Commencing July 1, 2003 and ending June 30, 2004 Capital Growth Management agreed to voluntarily waive a portion of the management fee, lowering the annual rate to 0.72% of the Fund's average daily net assets. Otherwise, the Fund's cumulative total return and average annual total return for the five and ten year periods ended June 30, 2006 would have been lower.

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares and assumes the reinvestment of all Fund distributions during such respective periods. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted.

See the Schedule of Investments beginning on the next page for the percentage of net assets of the Fund invested in particular industries or securities.

CGM MUTUAL FUND

INVESTMENTS as of June 30, 2006

(unaudited)

COMMON STOCKS — 69.3% OF TOTAL NET ASSETS

	Shares	Value(a)
Aerospace — 1.1%		
The Boeing Company	70,000	\$ 5,733,700
Copper — 6.8%		
Phelps Dodge Corporation	346,000	28,427,360
Southern Copper Corporation	85,000	7,576,050
		<u>36,003,410</u>
Metals and Mining — 10.1%		
BHP Billiton Limited ADR (b)	630,000	27,134,100
Rio Tinto Plc ADR (b)	125,000	26,213,750
		<u>53,347,850</u>
Office Equipment — 2.0%		
Hewlett-Packard Company	330,000	10,454,400
Oil - Independent Production — 5.6%		
Petróleo Brasileiro S.A. ADR (b)	332,000	29,650,920
Oil - Major Integrated — 2.9%		
Exxon Mobil Corporation	250,000	15,337,500
Oil Refining — 16.2%		
ConocoPhillips	400,000	26,212,000
Hess Corporation	591,000	31,234,350
Suncor Energy Inc.	345,000	27,948,450
		<u>85,394,800</u>
Oil - Service — 11.0%		
Baker Hughes Incorporated	300,000	24,555,000
Schlumberger Limited	514,000	33,466,540
		<u>58,021,540</u>
Retail — 4.5%		
JC Penney Company, Inc.	350,000	23,628,500
Steel — 9.1%		
Mittal Steel Company N.V.	500,000	15,255,000
POSCO ADR (b)	160,000	10,704,000
United States Steel Corporation	315,000	22,087,800
		<u>48,046,800</u>
TOTAL COMMON STOCKS (Identified Cost \$345,370,890)		<u>365,619,420</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

INVESTMENTS as of June 30, 2006 (continued)

(unaudited)

BILLS — 30.0% OF TOTAL NET ASSETS

	Face Amount	Value(a)
United States Treasury — 30.0%		
United States Treasury Bills, 4.494%, 7/27/06	\$ 3,000,000	\$ 2,989,925
United States Treasury Bills, 4.536%, 8/31/06	25,500,000	25,302,324
United States Treasury Bills, 4.596%, 9/14/06	66,000,000	65,365,740
United States Treasury Bills, 4.610%, 8/10/06	6,000,000	5,968,667
United States Treasury Bills, 4.621%, 8/17/06	15,500,000	15,405,092
United States Treasury Bills, 4.649%, 8/10/06	6,000,000	5,968,400
United States Treasury Bills, 4.695%, 9/28/06	17,500,000	17,296,983
United States Treasury Bills, 5.832%, 7/06/06	20,000,000	19,980,592
TOTAL BILLS (Identified Cost \$158,245,266)		<u>158,277,723</u>

SHORT-TERM INVESTMENT — 0.5% OF TOTAL NET ASSETS

American Express Credit Corporation, 5.10%, 7/03/06 (Cost \$2,430,000)	2,430,000	<u>2,430,000</u>
TOTAL INVESTMENTS — 99.8% (Identified Cost \$506,046,156)(c)		526,327,143
Cash and receivables		23,609,912
Liabilities		<u>(22,410,390)</u>
TOTAL NET ASSETS — 100.0%		<u><u>\$527,526,665</u></u>

(a) See Note 1A.

(b) An American Depositary Receipt (ADR) is a certificate issued by a U.S. bank representing the right to receive securities of the foreign issuer described. The values of ADRs are significantly influenced by trading on exchanges not located in the United States or Canada.

(c) Federal Tax Information: At June 30, 2006, the net unrealized appreciation on investments based on cost of \$506,346,183 for Federal income tax purposes was as follows:

Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost	\$25,345,319
Aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value	<u>(5,364,359)</u>
	<u><u>\$19,980,960</u></u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006
(unaudited)

Assets

Investments at value (Identified cost — \$506,046,156)	\$526,327,143	
Cash	2,811	
Receivable for:		
Securities sold	\$23,324,577	
Shares of the Fund sold	43,930	
Dividends and interest	238,594	23,607,101
		<u>549,937,055</u>

Liabilities

Payable for:		
Securities purchased ..	21,488,989	
Shares of the Fund redeemed	395,870	21,884,859
Accrued expenses:		
Management fees	376,766	
Trustees' fees	14,197	
Accounting, Administration and Compliance	7,873	
Transfer agent fees ...	67,801	
Other expenses	58,894	525,531
		<u>22,410,390</u>

Net Assets \$527,526,665

Net Assets consist of:		
Capital paid-in	\$475,073,956	
Undistributed net investment income	2,667,440	
Accumulated net realized gain on investments and foreign currency ..	29,504,282	
Unrealized appreciation on investments — net	20,280,987	

Net Assets \$527,526,665

Shares of beneficial interest outstanding, no par value	17,818,778
Net asset value per share*	<u>\$29.61</u>

*Shares of the Fund are sold and redeemed at net asset value (\$527,526,665 ÷ 17,818,778).

STATEMENT OF OPERATIONS

Six Months Ended June 30, 2006
(unaudited)

Investment Income

Income	
Dividends (net of withholding tax of \$32,487)	\$ 3,034,125
Interest	<u>4,265,798</u>
	<u>7,299,923</u>

Expenses

Management fees	2,358,261
Trustees' fees	29,766
Accounting, Administration and Compliance	47,241
Custodian	54,282
Transfer agent	253,081
Audit and tax services	17,450
Legal	19,323
Printing	36,982
Registration	16,382
Miscellaneous	1,350
	<u>2,834,118</u>

Net investment income 4,465,805

Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions

Net realized gain on investments and foreign currency transactions	29,758,982
Net unrealized depreciation	<u>(1,077,222)</u>
Net gain on investments and foreign currency transactions	<u>28,681,760</u>

Net Change in Assets from Operations \$ 33,147,565

See accompanying notes to financial statements.

CGM MUTUAL FUND

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended June 30, 2006 (unaudited)	Year Ended December 31, 2005
Operations		
Net investment income	\$ 4,465,805	\$ 5,497,121
Net realized gain from investments and foreign currency transactions	29,758,982	80,829,927
Unrealized depreciation	(1,077,222)	(17,869,171)
Change in net assets from operations	<u>33,147,565</u>	<u>68,457,877</u>
Distributions to Shareholders		
Net investment income	(1,798,365)	(5,573,344)
Net realized long-term capital gain on investments	—	(14,846,567)
	<u>(1,798,365)</u>	<u>(20,419,911)</u>
Capital Share Transactions		
Proceeds from sale of shares	10,171,556	17,461,378
Net asset value of shares issued in connection with reinvestment of:		
Dividends from net investment income	1,590,155	4,911,392
Distribution from net long-term realized capital gain	—	13,467,340
	<u>11,761,711</u>	<u>35,840,110</u>
Cost of shares redeemed	(30,195,915)	(50,709,410)
Change in net assets derived from capital share transactions	<u>(18,434,204)</u>	<u>(14,869,300)</u>
Total change in net assets	<u>12,914,996</u>	<u>33,168,666</u>
Net Assets		
Beginning of period	<u>514,611,669</u>	<u>481,443,003</u>
End of the period (including undistributed net investment income of \$2,667,440 and \$0 at June 30, 2006 and December 31, 2005, respectively)	<u>\$ 527,526,665</u>	<u>\$ 514,611,669</u>
Number of shares of the Fund:		
Issued from sale of shares	347,735	638,159
Issued in connection with reinvestment of:		
Dividends from net investment income	53,158	177,340
Distribution from net long-term realized capital gain	—	482,182
	<u>400,893</u>	<u>1,297,681</u>
Redeemed	(1,031,727)	(1,858,000)
Net change	<u>(630,834)</u>	<u>(560,319)</u>

See accompanying notes to financial statements.

CGM MUTUAL FUND

FINANCIAL HIGHLIGHTS

	Six Months Ended June 30, 2006 (unaudited)	For the Year Ended December 31,				
		2005	2004	2003	2002	2001(a)
For a share of the Fund outstanding throughout each period:						
Net asset value at the beginning of period ...	\$27.89	\$25.33	\$23.00	\$16.65	\$20.47	\$23.38
Net investment income(b)	0.25(c)	0.30(c)	0.16(c)	0.23(c)	0.26(c)	0.19
Net realized and unrealized gain (loss) on investments and foreign currency transactions	1.57	3.40	2.33	6.35	(3.67)	(2.90)
Total from investment operations	1.82	3.70	2.49	6.58	(3.41)	(2.71)
Dividends from net investment income	(0.10)	(0.31)	(0.16)	(0.23)	(0.41)	(0.20)
Distribution from net long-term realized gain ..	—	(0.83)	—	—	—	—
Total Distributions	(0.10)	(1.14)	(0.16)	(0.23)	(0.41)	(0.20)
Net increase (decrease) in net asset value	1.72	2.56	2.33	6.35	(3.82)	(2.91)
Net asset value at end of period	\$29.61	\$27.89	\$25.33	\$23.00	\$16.65	\$20.47
Total Return (%)	6.5	14.6	10.9(d)	39.7(d)	(16.9)	(11.6)
Ratios:						
Operating expenses to average net assets (%)	1.07*	1.09	1.02	1.07	1.14	1.10
Operating expenses to average net assets before management fee waiver (%)	N/A	N/A	1.11	1.17	N/A	N/A
Net investment income to average net assets (%)	1.69*	1.09	0.68	1.23	1.30	1.00
Portfolio turnover (%)	514*	336	314	260	191	236
Net assets at end of period (in thousands) (\$)	527,527	514,612	481,443	477,147	376,089	498,972

(a) As required, effective January 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing premium and discount on debt securities. The effect of this change for the year ended December 31, 2001 was to increase net investment income per share by \$0.04, decrease net realized and unrealized gains and losses per share by \$0.04, and increase the ratio of net investment income to average net assets from 0.82% to 1.00%.

(b) Net of management fee waiver which amounted to (\$)

	N/A	N/A	0.02	0.02	N/A	N/A
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(c) Per share net investment income has been calculated using the average shares outstanding during the period.

(d) The total return would have been lower had the management fee not been reduced during the period.

* Computed on an annualized basis.

See accompanying notes to financial statements.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS — June 30, 2006

(unaudited)

1. The Fund is a diversified series of CGM Trust which is organized as a Massachusetts business trust under the laws of Massachusetts pursuant to an Agreement and Declaration of Trust. The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company. The Trust has two other Funds whose financial statements are not presented herein. Along with one other fund in a separate Trust, there are four CGM Funds. The Fund commenced operations on November 5, 1929. The Fund's objective is reasonable long-term capital appreciation with a prudent approach to protection of capital from undue risks. Current income is a consideration in the selection of the Fund's portfolio securities, but it is not a controlling factor.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

- A. Security valuation** — Equity securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees. The pricing service provides the last reported sale price for securities listed on a national securities exchange or in the case of the NASDAQ national market system, the NASDAQ official closing price. For securities with no sale reported and in the case of over-the-counter securities not so listed, the last reported bid price is used. Corporate debt securities are valued on the basis of valuations furnished by a pricing service, authorized by the Board of Trustees, which determines valuations for normal, institutional-size trading units of such securities using market information, transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders. United States government debt securities are valued at the current closing bid, as last reported by a pricing service approved by the Board of Trustees. Short-term investments having a maturity of sixty days or less are stated at amortized cost, which approximates value. Other assets and securities which are not readily marketable will be valued in good faith at fair value using methods determined by the Board of Trustees.
- B. Security transactions and related investment income** — Security transactions are accounted for on the trade date (date the order to buy or sell is executed) and dividend income is recorded on the ex-dividend date net of applicable foreign taxes. Interest income is recorded on an accrual basis and includes amortization of premium and discount. Net gain or loss on securities sold is determined on the identified cost basis. Dividend payments received by the Fund from its investment in REITs may be comprised of ordinary income, capital gains, and return of capital and as such are recorded as dividend income, capital gains or cost, as appropriate.
- C. Federal income taxes** — It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders all of its taxable income and net realized capital gains, within the prescribed time period. Accordingly, no provision for federal income tax has been made. At December 31, 2005, there were no capital loss carryovers available to offset future realized gains. During the year 2005 the Fund utilized \$66,115,472 of capital loss carryovers.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

As of December 31, 2005, the components of distributable earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-term Capital Gains</u>	<u>Net Unrealized Appreciation/ (Depreciation)</u>
\$ —	\$ —	\$21,103,509

- D. Dividends and distributions to shareholders** — Dividends and distributions are recorded by the Fund on the ex-dividend date. The classification of income and capital gains distributions is determined in accordance with income tax regulations. Distributions from net investment income and short-term capital gains are treated as ordinary income for income tax purposes. Permanent book and tax differences relating to shareholder distributions may result in reclassifications to paid-in capital. These differences are primarily related to foreign exchange gain/loss. The Fund also utilized earnings and profits distributed to shareholders on redemption of shares as a part of the dividend deduction for income tax purposes. Undistributed net investment income or accumulated net investment loss may include temporary book and tax differences such as tax deferral of losses on wash sales, which will reverse in a subsequent period. Any taxable income or gain remaining at fiscal year end is distributed in the following year.

The tax character of distributions paid during the period ended June 30, 2006, were as follows:

<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Total</u>
\$1,798,365	\$ —	\$1,798,365

The tax character of distributions paid during the fiscal year ended December 31, 2005, were as follows:

<u>Ordinary Income</u>	<u>Long-Term Capital Gains</u>	<u>Total</u>
\$5,496,837	\$14,923,074	\$20,419,911

- E. Foreign currency translation** — All assets and liabilities initially expressed in terms of foreign currencies are translated into U.S. dollars. Transactions affecting statement of operations accounts and net realized gain/(loss) on investments are translated at the rates prevailing at the dates of the transactions. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. Reported net realized foreign exchange gains or losses arise from sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains or losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the period, resulting from changes in the exchange rate.
- F. Indemnities** — In the normal course of business, CGM Mutual Fund may enter into contracts that provide indemnities to third parties for various potential losses and claims. CGM Mutual Fund's maximum exposure under these arrangements is unknown as this would depend on future claims that may be made against CGM Mutual Fund. The risk of material loss from such claims is considered remote.

CGM MUTUAL FUND

NOTES TO FINANCIAL STATEMENTS (continued)

(unaudited)

2. Investment risk — There are certain additional risks involved in investing in foreign securities that are not inherent in investments in domestic securities. These risks may involve adverse political and economic developments and the possible imposition of currency exchange blockages or other foreign governmental laws or restrictions. In addition, the securities of some foreign companies and securities markets are less liquid and at times more volatile than securities of comparable U.S. companies and U.S. securities markets.

3. Purchases and sales of securities — For the period ended June 30, 2006, purchases and sales of securities other than United States government obligations and short-term investments aggregated \$873,685,342 and \$882,574,787, respectively. There were no purchases or sales of long-term United States government obligations.

4. A. Management fees — During the period ended June 30, 2006, the Fund incurred management fees of \$2,358,261, paid or payable to the Fund's investment adviser, Capital Growth Management Limited Partnership (CGM), certain officers and directors of which are also officers and trustees of the Fund. The management agreement provides for a fee at the annual rate of 0.90% on the first \$500 million of the Fund's average daily net assets, 0.80% of the next \$500 million and 0.75% of such assets in excess of \$1 billion.

B. Other expenses — CGM performs certain administrative, accounting, compliance and other services for the Fund. The expenses of those services, which were paid to CGM by the Fund, include the following: (i) expenses for personnel performing bookkeeping, accounting and financial reporting functions and clerical functions relating to the Fund; (ii) expenses for services required in connection with the preparation of registration statements and prospectuses, shareholder reports and notices, proxy solicitation material furnished to shareholders of the Fund or regulatory authorities and reports and questionnaires for SEC compliance; (iii) registration, filing and other fees in connection with requirements of regulatory authorities and (iv) compliance in connection to the Investment Company Act of 1940 and the Sarbanes Oxley Act of 2002. The Accounting, Administration and Compliance expense of \$47,241, for the period ended June 30, 2006, is shown separately in the financial statements. These expenses include the reimbursement of a portion of the compensation expenses incurred by CGM for its employees who provide these administrative, accounting, compliance, and other services to the Fund, some of whom are officers of the Fund. Of the total expense reimbursement, \$36,790 represented reimbursements by the Fund to CGM for a portion of the salaries of CGM employees who are officers of the Fund.

C. Trustees fees and expenses — The Fund does not pay any compensation directly to any trustees who are directors, officers or employees of CGM, or any affiliate of CGM (other than registered investment companies). For the period ending December 31, 2006, each disinterested trustee is compensated by the CGM Funds with an annual fee of \$50,000 plus travel expenses for each meeting attended. The disinterested trustees are responsible for the audit committee functions of the CGM Funds and have designated a chairman to oversee those functions who receives an additional \$30,000 annually. Of these amounts, each of the CGM Funds is responsible for \$7,000 per trustee annually, plus an annual variable fee calculated based on the proportion of each of the CGM Funds' average net assets relative to the aggregate average net assets of the CGM Funds.

CGM MUTUAL FUND

FUND EXPENSES

As a shareholder of CGM Mutual Fund, you incur two types of costs: (1) transaction costs, which could include, among other charges, wire fees and custodial maintenance fees for certain types of accounts and (2) ongoing costs, including management fees and other Fund expenses. This Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

The Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period January 1, 2006 to June 30, 2006.

Actual Return and Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs such as any wire fees or custodial maintenance fees that may be payable. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

	<i>Beginning Account Value 1/01/06</i>	<i>Ending Account Value 6/30/06</i>	<i>Expenses Paid During Period* 1/01/06 – 6/30/06</i>
Actual	\$1,000.00	\$1,065.23	\$5.48
Hypothetical (5% return before expenses)	\$1,000.00	\$1,019.49	\$5.36

* Expenses are equal to the Fund's annualized expense ratio of 1.07%, multiplied by the average account value over the period, multiplied by 181/365 (to reflect the one-half year period).

CGM MUTUAL FUND

25 YEAR INVESTMENT RECORD DECEMBER 31, 1980 — JUNE 30, 2006 (unaudited)

IF YOU HAD PURCHASED ONE SHARE OF THE FUND ON DECEMBER 31, 1980

On December 31	— AND HAD TAKEN ALL DIVIDENDS AND DISTRIBUTIONS IN CASH			OR — HAD REINVESTED ALL DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS IN ADDITIONAL SHARES		
	The Net Asset Value of Your Shares Would Have Been	During the Year You Would Have Received		The Value of Your Original Investment At Each Year End Would Have Been	Which Would Represent	
		Per Share Capital Gains Distributions of	Per Share Income Distributions of		An Annual Total Return of	A Cumulative Change Expressed As An Index With December 31, 1980 = 100.0
1980	\$14.85	—	—	—	—	100.0
1981	13.90	—	\$ 0.97	\$ 14.86	+ 0.1%	100.1
1982	18.16	—	1.09	20.95	+ 41.0	141.1
1983	18.81	—	1.09	23.02	+ 9.9	155.1
1984	17.01	\$ 1.86	0.95	24.47	+ 6.3	164.9
1985	21.53	—	1.08	32.91	+ 34.5	221.8
1986	22.86	2.75	0.94	41.17	+ 25.1	277.5
1987	20.40	4.52	1.06	46.81	+ 13.7	315.5
1988	19.94	—	1.10	48.31	+ 3.2	325.6
1989	22.34	0.95	0.93	58.79	+ 21.7	396.3
1990	21.64	—	0.93*	59.44	+ 1.1	400.7
1991	26.80	2.64	0.97	83.75	+ 40.9	564.6
1992	26.02	1.42	0.93	88.86	+ 6.1	599.0
1993	28.88	1.93	0.86	108.23	+ 21.8	729.6
1994	25.05	—	1.04	97.73	— 9.7	658.8
1995	29.43	0.89	0.77	121.48	+ 24.3	818.9
1996	31.42	4.15	0.74	150.27	+ 23.7	1013.0
1997	25.52	7.81	0.67	162.59	+ 8.2	1096.1
1998	26.36	0.25	0.98	175.92	+ 8.2	1186.0
1999	27.28	3.54	0.84	211.98	+ 20.5	1429.1
2000	23.38	—	0.73	187.39	— 11.6	1263.3
2001	20.47	—	0.20	165.65	— 11.6	1116.8
2002	16.65	—	0.41	137.66	— 16.9	928.1
2003	23.00	—	0.23	192.31	+ 39.7	1296.6
2004	25.33	—	0.16	213.27	+ 10.9	1437.9
2005	27.89	0.83	0.31	244.41	+ 14.6	1647.8
2006(6/30)	29.61	—	0.10	260.30	+ 6.5	1754.9
Totals		\$33.54	\$20.08		+1654.9	

*Includes \$0.05 per share distributed from paid-in capital.

Shares were first offered on November 5, 1929; the net asset value per share, adjusted for stock splits and dividends, was \$8.33.

The performance data contained in this report represent past performance, which is no guarantee of future results. The table above does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. The investment return and the principal value of an investment in the Fund will fluctuate so that investors' shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data quoted. The advisor waived \$0.02 and \$0.02 per share of management fee in 2003 and 2004, respectively. Otherwise, the annual total return for 2003 and 2004 and cumulative 25-year return would have been lower.

ADDITIONAL INFORMATION

(unaudited)

Availability of Proxy Voting Information:

Proxy voting policies and information regarding how the Fund voted proxies relating to portfolio securities during the twelve month period ended June 30, 2006 are available without charge, upon request by calling 1-800-345-4048. The policies also appear in the Fund's Statement of Additional Information, which can be found on the SEC's website, <http://www.sec.gov>. The voting records can also be found on the SEC's website on the Fund's Form N-PX filing.

Portfolio Holdings:

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

Advisory Agreement Approval:

In considering renewal of the advisory agreement, during meetings held in March and April, 2006, the Board of Trustees of the Fund (the "Board") considered the following factors and came to the following conclusions:

1. The Board considered the nature, extent, quality and scope of the investment advisory and administrative services provided by CGM to the Fund. The Board agreed that the nature, extent, quality and scope of the CGM professional team working on the Fund was very high, and was satisfied with the quality of CGM's advisory and administrative services.
2. The Board considered the investment performance of the Fund and CGM and determined that the Fund's performance compared favorably with other balanced funds for the one-, three- and five-year periods ended December 31, 2005. The Board agreed that this performance reflected in large measure the focus of CGM on long-term performance rather than pursuing short-term market movements. The Board acknowledged that, while for some periods this focus on long-term performance might cause the Fund to lag other comparable mutual funds with a more short-term focus, over the longer term CGM's approach had proven its worth.
3. The Board discussed the costs of the services provided and profits realized by CGM from the relationship with the mutual funds advised by CGM and each of the separate accounts managed by CGM, and found that the profit margins were reasonable and not excessive.
4. The Board discussed with CGM whether economies of scale might be realized with growth in the Fund. Given the relatively small size of the Fund and CGM's investment style, the Board determined that it would not be advisable to seek incremental adjustments to the Fund's advisory fee.
5. The Board received and considered information comparing the advisory fees paid by the Fund and the overall expenses borne by the Fund with those of funds in the relevant expense universe as selected and provided by Lipper, Inc., an independent provider of investment company data. The Board noted that the overall expense ratio of the Fund was competitive compared to the expense ratios of other mutual funds included in the Lipper reports. The Board also reviewed information regarding fees charged by CGM to its other clients, including its separate account clients. CGM reviewed with the Board the significant differences in scope of services provided to the Fund and to those other clients, noting that the Fund required a greater

CGM MUTUAL FUND

ADDITIONAL INFORMATION (continued)

(unaudited)

allocation of management's time as a result of its differing investment mandate. The Board discussed the fee comparisons in light of the differences required to manage these different types of accounts. Based on these comparisons, the Board concluded that the advisory fees paid by the Fund and the overall expenses borne by the Fund were fair and reasonable.

In addition to the foregoing, in light of the fact that CGM could potentially benefit from soft dollar arrangements of the Fund, the Board of Trustees reviewed the brokerage commissions of the Fund and concluded that the brokerage commissions were reasonable, particularly given the Fund's relatively small size and focus on best execution.

BOARD OF TRUSTEES

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G. KENNETH HEEBNER
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